

CHAPTER I

INTRODUCTION

A. BACKGROUND

Companies compete with other to place products in the heart of consumers. It is a way that used by company to win in this business competitive environment. To win in this business competitive environment, the company could be monitoring the products's market share by using the marketing concept. According to Basu Swastha and Hani Handoko (2000:6), the marketing concept is a business philosophy which is satisfying consumer needs is an economic and social requirements for the survival of a company. The company has consequence that all company activities must be directed to determine the needs of consumers and be able to provide satisfaction in obtaining profits in the long run.

The marketing concept holds that the key to achieving organizational goals consist of the company being more effective than competitors in creating, delivering, and communicating superior customer value toward chosen target markets. The marketing concept can be achieved by trying to recognize and formulate the wants and needs of consumers. The company in meeting the desires and needs of consumers must develop policies regarding products, prices, promotion and distribution following the conditions of the target consumer. It means that the purpose of the marketing concept is to provide satisfaction to the wants and needs of consumers.

Satisfaction is person's feelings of pleasure or disappointment that result from comparing a product's perceived performance (outcome) to expectations (Kotler and Keller,2012). While the customer satisfaction is the performance of an item at least the same as what was expected (Tjiptono,2008). Zeithaml and Bitner (1996) showed that customer satisfaction is exclusively influenced by service quality, product quality, price, situational factors, and human factors. The following are 4 facts about customer satisfaction (Kotler, 2003):

1. Getting new customers will spend 5% to 10% more than the costs incurred to satisfy and retain existing customers.
2. The average company loses 10% to 30% of its customers every year.
3. A reduction of 5% in the rate of mistakes made by customers will increase revenue by 25% to 85% depending on the industry in which the company is located.
4. The level of income from customers tend to increase if the customer is still maintained by the company.

According to Heskett (2011), as satisfied customers are loyal and dissatisfied customers are a vendor. Oliver (1999:34) described the customers' loyalty as "a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour". The level of loyalty which actually begins with the assessment of very

satisfied with what it receives from the company (Jones and Sasser, 1995). Companies need to monitor and increase the level of customer satisfaction. The highest level of customer satisfaction, more likely the customer remains loyal to the brand. The customer expresses their loyalty to repeat the purchase from the company. Bennett and Rundle (2004), and Schultz, (2005), stated that customers who feel satisfied by a product or service will form a loyal behavior. This behavior will lead to repetitive purchases and share a positive word of mouth. This finding is in line with Selnes (1993), which stated that customer loyalty can be formed if the customer is satisfied with the brand or the level of service received and intend to continue the relationship. According to Zeithaml, Parasuraman, and Berry (1996), the product or service quality can directly influence on loyalty.

Kotler and Armstrong (2012), the product quality is the characteristic of product or service that bear on its ability to satisfy stated or implied customer needs. The company will provide its best quality to consumers so that consumers continue to make purchases of the products offered. It is very competitive business, companies have a big role, especially with consumer ratings of product quality. According to Nirvana (2006), the quality of product is dynamic and changes with the demand of the customers. The analysis from Yuen and Chan (2010) higher product quality can maintain the highest level of client satisfaction, which inspires customers to form future purchase.

Similarly, prices have a very important role in meeting the desires of consumers in making purchasing decisions. Kotler and Armstrong (2012) suggested that “Price is the sum of the values that customers exchange for the benefits of having or using a product or service”. The effect of prices is a visible impact on competitors and consumers because the impact of price changes is more immediately and directly felt. Attraction based on price is the most easily communicated.

According to Husein (2005) price is very important to be considered by buyers to decide buy or not to buy goods and services needed. The customers will also use price as one of the standard level of their satisfaction. Research Voss et al. (1998), and Bei and Chiao (2001), found that the price has a positive significant effect on customer satisfaction. These results are in contrast to study Ostrowski et al. (1993), Mahmud et al. (2013), which found the price factor has no effect on customer satisfaction. Moreover, based on the analysis by Mahmud, et al (2014) price has a big influence on client loyalty with a positive relationship.

Keller (1993) defined brand image as the customers' perception of a brand that is described in the existing brand associations in consumers' minds. Aaker and Keller (1990), Tu et al. (2012), Thakur and Singh (2012), found that the brand image has a positive effect on satisfaction. The study conducted by Kumar et al. (1987) revealed that brand image is more important than the original of the product, since the consumers were attracted by the brands. According to Abrashevich (2001) along with his studied that favorable image of product within the mind of customers has an

crucial impact on buy, which are showing more of the customer's interest in purchasing the cosmetic products or personal care products. Nguyen and Leblanc (2001) found that the degree of customer loyalty tends to be high in business where brand image is strong. Although it has many research studies on brand image, but it is still needed to conduct further research especially for accommodate the specific characteristics of business Fast Moving Customer Goods in Indonesia in which it has unique customers.

Fast Moving Consumer Goods (FMCG) is a product that is needed by all end users to fulfill their daily needs (Pongiannan and Chinnasamy, 2014). This product is sold massively at a relatively low price. The grouping or categorization of FMCG products, for example, consists of personal care, household needs, soft drinks, toiletries, detergents, batteries, stationery supplies, cosmetics, pharmaceuticals, food packages, and others. The product group is the result of the production process carried out by the FMCG industrial producers. National and multinational companies have operated the FMCG industry, so now the FMCG industry has grown rapidly in every country (Ibidunni, 2011).

PT Unilever Indonesia Tbk is one of the largest FMCG companies in Indonesia. Founded in 1933, the first product launched and still in existence today is Lux soap in 1936. After 85 years of existence in the FMCG industry, there is at least one product used by households in Indonesia and the profit recorded at the end of 2018 is Rp 9.1 Trillion.

The products that produced by Unilever are beauty & personal care, food and refreshments, cleaning products. Unilever personal care products consist of *hair care (shampoo), body care (soap), deodorant, and oral care*. Unilever personal care products do not use Unilever's brand as the main brand image in marketing and customer recognition but use a new brand image in every product they launch. Personal care product brands which are spread in Indonesia are *Lux, Lifebuoy, Dove, Closeup, Pepsodent, Axe, Rexona, Sunsilk, TreSemme, Clear*.

According to the online news platform, www.ekonomi.business.com shows that a survey conducted by Kantar Wordpanel with a sample of 27.6 million households in urban areas of Indonesia with a total of 5,680 households during November 2014 - October 2015, one of Unilever Indonesia's personal care products received the top ranking by gaining a market of 94.7%, *Lifebuoy*. Additionally, according to the report: Indonesia (2010:69), the total market shares of Unilever for personal care product in Indonesia market is about 40%. It means that Unilever's personal care products are superior in the Indonesian FMCG market.

The most companies today understand that many customers are not loyal only one particular brand (Dekimpe, et al., 1997; Bennett and Rundle, 2005; Kapferer, 2005). Despite of the Unilever Indonesia already has the highest market shares of personal care product around 40% in Indonesia market, but it does not mean that they can underestimate the other competitors. In fact, there are another two biggest FMCG

companies that produced personal care that has position bellows of Unilever Indonesia, they are P&G and L'Oreal.

According to the cosmetics, toiletries and skincare market overviews (2016:1-2), in the middle and low-end market segments, domestic manufacturing comprises over 50% of the market and its dominated by international brands including Unilever about 40 %, L'Oreal and Procter and Gamble. It means that, 10% of the other market is dominated to P&G's and L'Oreal's personal care product. It means that, Unilever Indonesia won from both of competitors with a thin difference, about 10% only.

The previous research has been carried out by B. Indapriyadharshini and M. Thilagavathi (2016) entitle *Consumer Satisfaction on Personal Care Products of Hindusthan Unilever Ltd. (With Reference to Pollachi)*. The study shows that the personal care products of Hindustan Unilever Limited provide satisfaction to the consumers in the way of price, quality and familiarity of the product. It is also observed that there is no significant association between the variables selected and the level of satisfaction of the consumers.

The problems of the author can be formulated as Does product quality, price, and brand image has significant effect into customer loyalty and customer satisfaction of the personal care product by Unilever Indonesia in Surakarta?

B. Research Problems

Based on the background above, problem in this research is to analyse how the effect of the product quality, price, and brand image toward customer loyalty with the mediation of customer satisfaction on personal care product of Unilever in Surakarta.

The research problems can be decided into the following:

1. How product quality, price, and brand image have significant effect on the customer satisfaction of personal care product by Unilever Indonesia in Surakarta?
2. How product quality, price, and brand image have significant effect on the customer loyalty with the mediation of customer satisfaction of personal care product by Unilever Indonesia at Surakarta?

C. Purpose of the research

The purpose of research based on the problems describe above, it will be arranged as follows:

1. To analyse the significant effect of product quality, price, and brand image on customer satisfaction of personal care product by Unilever Indonesia in Surakarta.

2. To analyse the significant effect of product quality, price, and brand image on customer loyalty with the customer satisfaction as a mediation variable of personal care product by Unilever Indonesia at Surakarta.

D. Benefits of the Research

The outcomes of the research are intended to serve the following benefits.

1. Theoretical Benefits

The results of this research are expected to give additional information about the relationship between the product quality, price, and brand image towards the customer satisfaction and customer loyalty in choosing personal product by Fast Moving Consumer Goods (FMCG) companies. Additionally, the research can be a reference for marketing and consumer management.

2. Practical Benefits

- For the researcher

This result can be used to recognize the relationship between the product quality, price, and brand image toward the customer satisfaction and customer loyalty in choosing personal care product of Unilever Indonesia Tbk.

- For the companies

The result of this research can be a deliberation for companies to decide policies and may deliver knowledge about the factors influencing customer satisfaction and customer loyalty of Unilever Indonesia Tbk as a data for R&D in the future.

- For the academic

The results of this research are intend to be a study materials reference in fields related to marketing management, especially regarding the product quality, price, and brand image influence on customer satisfaction and customer loyalty of personal product by Unilever Indonesia.

E. Contents of Research

There are five chapters in this research, there are

Chapter I Introduction

The introduction chapter describes the background, research problems, purpose of the research, benefits of the research, and contents of the research.

Chapter II Literature Review

The literature review chapter contains the theory and the meanings of product quality, price, brand image, customer satisfaction, and customer loyalty, hypotheses among the variables, the previous studies and the theoretical framework.

Chapter III Research Methodology

The research methodology chapter discusses the detail about the research types, sources of data, data collection technique, operational definition, research instrument test, assumption classic test, and hypotheses test.

Chapter IV Data Analysis and Discussions

Data analysis and discussions show all of the results and the findings from the analysis of the data collected likes as general description of the products, data analysis, the instrument test, the assumption classic test, the hypothesis test, and the discussions. The statistical package for social science (SPSS) is the program that has been used in this research.

Chapter V Conclusions

This chapter consist of the research conclusion, implications, and limitation that could be used for better further research.